

**Mosaic and Affiliates**  
Omaha, Nebraska

**Consolidated Financial Statements**  
**June 30, 2017 and 2016**

**Together with Independent Auditor's Report**

## Mosaic and Affiliates

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## Independent Auditor's Report

To the Board of Directors  
Mosaic and Affiliates  
Omaha, Nebraska:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mosaic and Affiliates (Mosaic) which comprise the consolidated balance sheets as of June 30, 2017 and 2016, the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mosaic as of June 30, 2017 and 2016, the results of its operations, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated October 6, 2017 on our consideration of Mosaic's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mosaic's internal control over financial reporting and compliance.

*Spim Johnson, LLP*

Omaha, Nebraska,  
October 6, 2017.

## Mosaic and Affiliates

### Consolidated Balance Sheets June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,425,991	12,916,945
Current portion of investments, primarily investments limited as to use	30,710,568	28,786,864
Receivables -		
Program services, net of estimated uncollectibles of \$1,092,500 in 2017 and \$811,500 in 2016	23,977,272	25,703,543
Pledges	1,490,426	1,172,848
Affiliates	514,888	191,337
Other	462,193	285,027
Other current assets	195,501	167,786
Prepaid expenses	1,698,495	1,653,389
Total current assets	<u>69,475,334</u>	<u>70,877,739</u>
Investments, primarily investments limited as to use, net of current portion	46,966,277	45,400,433
Property and equipment, net	62,817,352	66,939,750
Other assets, net	11,595,294	10,165,272
Total assets	<u>\$ 190,854,257</u>	<u>193,383,194</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current portion of -		
Long-term debt, including lines of credit	\$ 15,464,956	17,295,318
Annuity payment liability	131,308	131,308
Liability for post-retirement benefits	44,945	28,955
Accounts payable -		
Trade	4,750,207	5,655,881
Construction	343,054	355,679
Other accrued expenses	11,542,710	11,888,084
Outstanding and incurred but not reported loss reserves	9,592,320	10,394,723
Deferred revenue	411,031	327,463
Estimated third-party payor settlements - Medicaid	1,301,091	464,491
Total current liabilities	<u>43,581,622</u>	<u>46,541,902</u>
Long-term liabilities:		
Long-term debt, net of current portion	17,662,376	19,590,801
Annuity payment liability, net of current portion	1,780,806	1,735,985
Refundable fees	692,669	764,645
Liability for post-retirement benefits, net of current portion	1,161,481	1,105,854
Total long-term liabilities	<u>21,297,332</u>	<u>23,197,285</u>
Total liabilities	<u>64,878,954</u>	<u>69,739,187</u>
Commitments and contingencies		
Net assets:		
Unrestricted	92,341,664	92,439,867
Temporarily restricted	28,400,614	26,613,908
Permanently restricted	5,233,025	4,590,232
Total net assets	<u>125,975,303</u>	<u>123,644,007</u>
Total liabilities and net assets	<u>\$ 190,854,257</u>	<u>193,383,194</u>

See notes to consolidated financial statements

## Mosaic and Affiliates

### Consolidated Statements of Operations and Changes in Net Assets For the Year Ended June 30, 2017, with Comparative Totals for 2016

	2017			Total	2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE, GAINS AND OTHER SUPPORT:					
Net program service revenue	\$ 221,783,010	--	--	221,783,010	230,266,501
Gifts and grants	2,812,187	3,397,158	42,086	6,251,431	4,357,553
Estates	471,226	25,000	600,707	1,096,933	1,020,570
Other revenue	4,505,387	--	--	4,505,387	5,987,787
Investment income, net	1,599,365	36,582	--	1,635,947	1,094,116
Unrealized gains (losses) on investments, net	3,145,700	--	--	3,145,700	(106,938)
Net assets released from restriction for operations	1,588,964	(1,588,964)	--	--	--
Total revenue, gains and other support	235,905,839	1,869,776	642,793	238,418,408	242,619,589
EXPENSES:					
Salaries and wages	124,963,810	--	--	124,963,810	128,671,947
Employee benefits	28,912,626	--	--	28,912,626	32,927,998
Supplies	2,812,535	--	--	2,812,535	3,884,340
Occupancy	5,515,450	--	--	5,515,450	5,854,070
Day and host home contractors	29,125,957	--	--	29,125,957	24,989,705
Purchased and professional services	8,158,119	--	--	8,158,119	7,274,780
Rentals and leases	6,849,790	--	--	6,849,790	6,934,428
Interest	1,551,639	--	--	1,551,639	1,246,511
Food	3,293,637	--	--	3,293,637	3,664,530
Insurance	2,654,330	--	--	2,654,330	2,581,809
Cost of goods sold - Ease-E	2,544,641	--	--	2,544,641	2,464,349
Telephone	1,560,969	--	--	1,560,969	1,569,577
Travel	1,946,618	--	--	1,946,618	2,187,093
Transportation	1,245,583	--	--	1,245,583	1,350,244
Repairs and maintenance	1,512,196	--	--	1,512,196	1,579,187
Employee-related expenses	1,234,519	--	--	1,234,519	1,009,571
Other	6,274,000	--	--	6,274,000	5,778,464
Depreciation	5,872,086	--	--	5,872,086	6,032,309
Amortization	42,204	--	--	42,204	188,365
Total expenses	236,070,709	--	--	236,070,709	240,189,277
NET INCOME (LOSS)	(164,870)	1,869,776	642,793	2,347,699	2,430,312
NET ASSETS RELEASED FROM RESTRICTION FOR THE PURCHASE OF PROPERTY AND EQUIPMENT	83,070	(83,070)	--	--	--
POSTRETIREMENT BENEFIT RELATED CHANGES OTHER THAN NET PERIODIC COST	(16,403)	--	--	(16,403)	57,496
INCREASE (DECREASE) IN NET ASSETS	(98,203)	1,786,706	642,793	2,331,296	2,487,808
NET ASSETS, BEGINNING OF YEAR	92,439,867	26,613,908	4,590,232	123,644,007	121,156,199
NET ASSETS, END OF YEAR	\$ 92,341,664	28,400,614	5,233,025	125,975,303	123,644,007

See notes to consolidated financial statements

## Mosaic and Affiliates

### Consolidated Statements of Operations and Changes in Net Assets For the Year Ended June 30, 2016

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT:				
Net program service revenue	\$ 230,266,501	--	--	230,266,501
Gifts and grants	2,572,279	1,681,172	104,102	4,357,553
Estates	993,570	27,000	--	1,020,570
Other revenue	5,987,787	--	--	5,987,787
Investment income, net	1,082,635	--	11,481	1,094,116
Unrealized losses on investments, net	(93,474)	--	(13,464)	(106,938)
Net assets released from restriction for operations	1,930,368	(1,930,368)	--	--
Total revenue, gains and other support	<u>242,739,666</u>	<u>(222,196)</u>	<u>102,119</u>	<u>242,619,589</u>
EXPENSES:				
Salaries and wages	128,671,947	--	--	128,671,947
Employee benefits	32,927,998	--	--	32,927,998
Supplies	3,884,340	--	--	3,884,340
Occupancy	5,854,070	--	--	5,854,070
Day and host home contractors	24,989,705	--	--	24,989,705
Purchased and professional services	7,274,780	--	--	7,274,780
Rentals and leases	6,934,428	--	--	6,934,428
Interest	1,246,511	--	--	1,246,511
Food	3,664,530	--	--	3,664,530
Insurance	2,581,809	--	--	2,581,809
Cost of goods sold - Ease-E	2,464,349	--	--	2,464,349
Telephone	1,569,577	--	--	1,569,577
Travel	2,187,093	--	--	2,187,093
Transportation	1,350,244	--	--	1,350,244
Repairs and maintenance	1,579,187	--	--	1,579,187
Employee-related expenses	1,009,571	--	--	1,009,571
Other	5,778,464	--	--	5,778,464
Depreciation	6,032,309	--	--	6,032,309
Amortization	188,365	--	--	188,365
Total expenses	<u>240,189,277</u>	<u>--</u>	<u>--</u>	<u>240,189,277</u>
NET INCOME (LOSS)	2,550,389	(222,196)	102,119	2,430,312
NET ASSETS RELEASED FROM RESTRICTION FOR THE PURCHASE OF PROPERTY AND EQUIPMENT	109,302	(109,302)	--	--
POSTRETIREMENT BENEFIT RELATED CHANGES OTHER THAN NET PERIODIC COST	<u>57,496</u>	<u>--</u>	<u>--</u>	<u>57,496</u>
INCREASE (DECREASE) IN NET ASSETS	2,717,187	(331,498)	102,119	2,487,808
NET ASSETS, BEGINNING OF YEAR	<u>89,722,680</u>	<u>26,945,406</u>	<u>4,488,113</u>	<u>121,156,199</u>
NET ASSETS, END OF YEAR	<u>\$ 92,439,867</u>	<u>26,613,908</u>	<u>4,590,232</u>	<u>123,644,007</u>

See notes to consolidated financial statements

## Mosaic and Affiliates

### Consolidated Statements of Cash Flows For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,331,296	2,487,808
Adjustments to reconcile the change in net assets to net cash provided by operating activities -		
Depreciation	5,872,086	6,032,309
Amortization	42,204	188,365
Gain on disposal of property and equipment, net	(293,379)	(1,801,685)
Change in liability for post-retirement benefits	71,617	43,544
Contributions received for split-interest agreements	(129,500)	(512,137)
Change in value of split-interest agreements	186,507	177,328
Change in carrying value of swap agreements, net	(30,714)	13,717
Increase in trading securities, net	(3,489,548)	(1,278,128)
Restricted gifts, grants and estates, net	(4,064,951)	(1,812,274)
(Increase) decrease in current assets -		
Receivables -		
Program services	1,726,271	901,380
Other	(177,166)	352,430
Other current assets	(27,715)	(48,938)
Prepaid expenses	(45,106)	444,045
Increase (decrease) in current liabilities -		
Trade accounts payable	(905,674)	166,171
Other accrued expenses	(345,374)	(474,007)
Outstanding and incurred but not reported loss reserves	(802,403)	(395,518)
Deferred revenue	83,568	(5,373)
Estimated third-party payor settlements - Medicaid	836,600	(468,171)
Net cash provided by operating activities	<u>838,619</u>	<u>4,010,866</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of property and equipment	1,929,881	2,194,554
Purchases of property and equipment	(3,398,815)	(4,251,628)
Changes in investments in affiliates, net	--	(144,798)
Net cash used in investing activities	<u>(1,468,934)</u>	<u>(2,201,872)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on lines of credit, net	(3,098,608)	(213,952)
Proceeds from issuance of long-term debt	12,451,174	953,283
Payments on long-term debt	(13,080,639)	(2,363,279)
Cash received for annuity payment obligations	320,000	829,404
Payments on annuity payment obligations	(332,186)	(313,592)
Other asset additions, net	(35,279)	(174,116)
Payments from (to) affiliates, net	(323,551)	265,181
Refundable fees received (disbursed), net	(71,976)	82,473
Restricted gifts, grants and estates, net	2,310,426	2,762,768
Net cash provided by (used in) financing activities	<u>(1,860,639)</u>	<u>1,828,170</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,490,954)	3,637,164
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>12,916,945</u>	<u>9,279,781</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 10,425,991</u>	<u>12,916,945</u>

See notes to consolidated financial statements

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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#### (1) Organization

Mosaic and Affiliates (Mosaic) is a not-for-profit integrated organization that provides living and care facilities and vocational services to people with intellectual disabilities or other special needs related to their health, education, care and support. These services are provided within the states of Arizona, Connecticut, Delaware, Iowa, Illinois, Indiana, Nebraska, Kansas, Texas, and Colorado. Mosaic also provides independent senior care in Wisconsin.

Mosaic also owns all of the issued common stock of BICO Ltd. (BICO) and Ease-E Medical, Inc. BICO insures Mosaic for the deductible portion of workers' compensation, employer's liability, general and professional liability, sexual misconduct, auto liability, employment practices liability, cyber liability, and environmental liability risks, while Ease-E Medical's primary business is the retail sale of disposable medical supplies. The consolidated financial statements of Mosaic include the accounts of the following entities:

- Mosaic
- The Mosaic Foundation
- Mosaic Housing Corp I
- Mosaic Housing Corp II
- Mosaic Housing Corp III
- Mosaic Housing Corp IV
- Mosaic Housing Corp V, Inc.
- Mosaic Housing Corp VII
- Mosaic Housing Corp VIII
- Mosaic Housing Corp IX
- Mosaic Housing Corp X
- Mosaic Housing Corp XI
- Mosaic Housing Corp XII
- Mosaic Housing Corp XIII
- Mosaic Housing Corp XIV
- Mosaic Housing Corp XV
- Mosaic Housing Corp XVI
- Mosaic Housing Corp XVII
- Mosaic Housing Corp XVIII
- Mosaic Housing Corp XIX
- Mosaic Housing Corp XX
- Mosaic Housing Corp XXI
- Mosaic Housing Corp XXII
- Mosaic Housing Corp XXIII
- The Oaks of Dunn County, Inc.
- Mosaic Illinois Housing 1
- Mosaic Illinois Housing 2
- Mosaic Illinois Housing of Macomb
- Mosaic Illinois Housing of Rockford
- Ease-E Medical, Inc. (f/k/a Spectrum Medical Equipment, Inc.)
- BICO Ltd.

Significant intercompany accounts and transactions have been eliminated in the consolidation.

Mosaic is affiliated with the Evangelical Lutheran Church of America. With such affiliation, Mosaic is solely responsible for its own management and affairs.

#### (2) Summary of Significant Accounting Policies

The following is a summary of significant accounting policies of Mosaic. These policies are in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP)

##### A. *Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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#### B. *Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the consolidated statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding investments limited as to use.

Supplemental disclosures of cash flow information include:

	<u>2017</u>	<u>2016</u>
Interest paid	\$ 1,295,912	1,265,456

#### C. *Investments*

Investments in equity securities, debt securities and mutual funds with readily determinable fair values are measured at fair value based on published or quoted market prices and are classified as trading securities.

For the years ended June 30, 2017 and 2016, investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in net income (loss).

#### D. *Contribution Receivable from Remainder Trusts*

The Mosaic Foundation has been named beneficiary of several irrevocable charitable remainder trust agreements in which The Mosaic Foundation will receive certain funds upon termination of each trust. The Mosaic Foundation recognizes contribution revenue in the period in which the trusts are established or when they receive notice of the trust's existence and when the amount contributed is measurable. The contributions and associated receivables are recorded by discounting the future gift amount to its net present value.

#### E. *Program Service Receivables*

Mosaic reports program service receivables for services rendered at net realizable amounts after determining the estimated allowance for doubtful accounts and contractual adjustments from third-party payors. Management reviews client receivables by payor class and applies percentages relative to account age and historical collection information to determine the adequacy of the bad debt allowance. Management utilizes calculation estimates based on applicable third-party reimbursement methodologies to determine contractual adjustments.

Payment for services is expected within thirty to sixty days of receipt of the billing. Any amounts deemed uncollectible are written off on a monthly basis. Mosaic does not charge interest on outstanding balances owed.

#### F. *Investments Limited as to Use*

By board – Investments set aside by the Board of Directors (Board) for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes.

By donor – Investments limited as to use by donor includes assets the donor has restricted for endowment or specific purposes.

Under bond indenture agreements – Investments set aside in accordance with terms of the various revenue bond agreements. This includes project funds, debt service funds and reserve funds.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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Under regulatory agreements – Investments restricted under regulatory agreements with the Department of Housing and Urban Development.

For insurance losses and reserves – Investments held within BICO for the satisfaction of losses and related reserves.

Deposits held in trust – Investments held for residents and clients under security deposits and other arrangements.

Other – Accounts restricted as reserves, escrow accounts, and for deferred compensation agreements.

These investments are recorded at fair value. Amounts required to meet current liabilities of Mosaic have been classified as current assets in the consolidated balance sheets.

#### G. *Property and Equipment*

Property and equipment acquisitions are stated at cost. Mosaic's capitalization policy is \$2,500 or the applicable state required Medicaid amount if other than \$2,500. Depreciation is provided on the straight-line method based upon the estimated useful lives of each class of depreciable asset as follows:

Land improvements	5 – 30 years
Buildings and improvements	2 – 50 years
Equipment and furnishings	2 – 30 years
Transportation equipment	3 – 15 years

Gifts of cash that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are released when the acquired long-lived assets are placed into service.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from net income, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

#### H. *Goodwill*

Mosaic has acquired goodwill through the purchase of several companies that provide various services for people with intellectual disabilities. As of June 30, 2017 and 2016, goodwill related to these purchases of \$5,969,559 is included in other assets, net, in the consolidated balance sheets. Mosaic evaluates goodwill for impairment in accordance with ASC Topic 350, *Intangibles-Goodwill and Other*, on an annual basis. See Note 8 for further information.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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#### I. *Annuity Payment Liability*

Mosaic has received several charitable gift annuities for which Mosaic is required to make specified payments in accordance with gift annuity agreements. Mosaic recognizes the agreements in the period in which the contract is executed. Assets received are recorded at fair value and an annuity payment liability is recognized at the present value of future cash flows expected to be paid. Unrestricted contribution revenue is recognized as the difference between these two amounts. Adjustments to the annuity liability to reflect changes in life expectancy are recognized as change in the value of split-interest agreements, and are included in other revenue on the consolidated statements of operations and changes in net assets.

#### J. *Outstanding and Incurred But Not Reported Loss Reserves*

The consolidated balance sheets include \$9,592,320 and \$10,394,723 of liabilities in 2017 and 2016, respectively, for self-insured workers compensation insurance and other general liability risks. BICO insures Mosaic's deductible portion of workers' compensation and employers' liability. In addition, BICO insures 100% of auto physical damage risks, cyber and environmental liability risks. These obligations represent an estimate for both reported claims not yet paid and claims incurred but not yet reported. Mosaic estimates the required reserve for such claims based on reports received from the third party administrators and an actuarial analysis.

Mosaic owns all of the issued common stock of BICO which was incorporated under the laws of Bermuda and is registered as a Class 3 insurer under The Insurance Act of 1978.

#### K. *Deferred Revenue*

Deferred revenue at June 30, 2017 and 2016 consists of advances from the following:

	<u>2017</u>	<u>2016</u>
Connecticut Department of Developmental Services	\$ 309,557	320,460
Other	<u>101,474</u>	<u>7,003</u>
	<u>\$ 411,031</u>	<u>327,463</u>

#### L. *Estimated Third-Party Payor Settlements – Medicaid*

Revenue for certain intermediate care facilities and other programs located in Nebraska, Iowa, Connecticut, and Texas are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by Medicaid. Mosaic is reimbursed on cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by Mosaic. The balance also includes liabilities related to overpayments received from Medicaid and other payors.

#### M. *Refundable Fees*

The Oaks of Dunn County, Inc. (The Oaks) is a non-profit housing project for seniors of varying income levels in Menomonie, Wisconsin. Fees paid by the original 27 residents that entered into a reservation agreement for an apartment unit at The Oaks are refundable to the resident upon termination of the agreement. For all residents after the first 27, fees paid upon entering a reservation agreement are reduced on an annual basis by 5%, up to 50% of the original deposit, and used to offset living expenses. Any remaining deposit is refunded upon termination of the agreement by the resident.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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#### N. *Net Assets*

Mosaic maintains the following classes of net assets:

Unrestricted – Represents net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted – Represents net assets subject to donor-imposed stipulations that may or will be met either by actions of Mosaic and/or the passage of time.

Permanently Restricted – Represents net assets subject to donor-imposed stipulations that they be maintained permanently by Mosaic. Generally, the donors of these assets permit Mosaic to use all of the interest and dividends earned on related investments for general or specific purposes of Mosaic.

#### O. *Donor-Restricted Funds*

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions on which they depend are substantially met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in less than one year are reported at net realizable value. Pledges receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible pledges receivable is determined based on management's evaluation of the collectability of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payments are merely postponed.

#### P. *Net Program Service Revenue*

Net program service revenue is reported at the estimated net realizable amounts from clients, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to audit, prospective adjustment or can be subject to retroactive adjustment. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

#### Q. *Derivatives*

Mosaic recognizes all derivative instruments as either assets or liabilities in the consolidated balance sheets at fair value. Changes in the fair value (i.e. gains or losses) of the derivative instrument is reported as a component of net income (loss) and included in revenue, gains and other support in the consolidated statements of operations and changes in net assets. Mosaic did not designate its interest rate swap as a cash flow hedge.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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#### R. *Income Taxes*

All consolidated affiliated entities, except for Mosaic Housing Corp V, Inc., Ease-E Medical, Inc. (Ease-E) and BICO are not-for-profit corporations as described in Section 501(c)(3) or 501(c)(2) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Internal Revenue Service has established standards to be met to maintain Mosaic's tax exempt status.

Mosaic Housing Corp V, Inc. is a for-profit taxable corporation and had no material operations or income.

Ease-E is a for-profit taxable corporation. Ease-E had net income during 2017 and 2016. Income tax refunds and deferred tax liabilities are included in other receivables and other accrued expenses, respectively, on the consolidated balance sheets.

BICO was incorporated under the laws of Bermuda, which do not require income taxes.

Mosaic recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Such tax positions, which are more than 50% likely of being realized, are measured at their highest value. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. During 2017 and 2016, management determined that there are no income tax positions requiring recognition in the consolidated financial statements other than described previously.

#### S. *Performance Indicator*

The consolidated statement of operations and changes in net assets includes net income (loss) as a performance indicator. Changes in net assets which are excluded from the performance indicator, consistent with industry practice, include net assets released from restriction for the purchase of property and equipment and postretirement benefit changes other than net periodic cost.

#### T. *Accounting Standards Adopted*

In April 2015, the FASB issued Accounting Standards Update (ASU) 2015-03, *Interest- Imputation of Interest* (Subtopic 835-30): *Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015. The adoption of this standard resulted in the presentation of \$380,327 of unamortized debt issuance costs as a direct reduction from the carrying amount of the corresponding liability in the balance sheet for June 30, 2017.

#### U. *Recent Accounting Pronouncements*

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Mosaic is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2017. Mosaic has not yet selected a transition method and is currently evaluating the effect that the standard will have on the consolidated financial statements.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new standard changes presentation and disclosure requirements with the intention of helping not-for-profits provide more relevant information about their resources-and the changes in those resources-to donors, grantors, creditors, and other financial statement users. This ASU will be effective for Mosaic for fiscal years beginning after December 15, 2017. Mosaic is currently evaluating the effect that the standard will have on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for Mosaic beginning on July 1, 2018. The adoption of ASU 2016-18 is not expected to have a material impact on the financial statements.

#### V. *Reclassification*

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 reporting format.

#### W. *Subsequent Events*

Mosaic considered events occurring through October 6, 2017 for recognition or disclosure in the consolidated financial statements as subsequent events. That date is the date the consolidated financial statements were available to be issued.

### (3) **Net Program Service Revenue**

Mosaic has agreements with third-party payors that provide payments based on contracted rates. The majority of Mosaic's support comes from state agencies for the provision of services to Title XIX - Medicaid eligible individuals and Medicaid waiver individuals. The majority of the contracted rates are based on prospective payment methodologies, with the remainder made on limited cost based methodologies. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. Certain programs can be subject to retroactive adjustment. As a result, there is at least a reasonable possibility that recorded estimates could change in the future.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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#### (4) Pledges Receivable

Included in pledges receivable are the following unconditional promises to give at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Program assistance and facility improvements:		
Less than one year	\$ 1,490,426	1,172,848
One to five years	3,437,456	1,876,365
More than five years	205,188	119,519
	<u>5,133,070</u>	<u>3,168,732</u>
Pledges receivable	5,133,070	3,168,732
Less allowance for uncollectible pledges	(318,250)	(139,168)
Less discounts for the time-value of money	(157,260)	(89,597)
	<u>4,657,560</u>	<u>2,939,967</u>
Pledges receivable, net	4,657,560	2,939,967
Less current portion of pledges receivable, net	(1,490,426)	(1,172,848)
	<u>3,167,134</u>	<u>1,767,119</u>
Long-term portion of pledges receivable, net	\$ <u>3,167,134</u>	<u>1,767,119</u>

The long-term portion of pledges receivable, net, is included in other assets, net, in the consolidated balance sheets, see Note 8. The discount rate was 2.0% for both 2017 and 2016.

#### (5) Investments, Primarily Investments Limited as to Use

The composition of investments, primarily investments limited as to use, at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Current portion of investments, primarily investments limited as to use	\$ <u>30,710,568</u>	<u>28,786,864</u>
Investments limited as to use -		
By board	\$ 31,328,933	31,575,719
By donor	9,004,784	8,112,491
Under bond indenture agreements	190,849	179,685
Under regulatory agreements	1,032,989	1,115,157
For insurance losses and reserves	18,096,112	16,886,268
Deposits held in trust	865,270	839,371
Other	100,000	100,000
Other investments	<u>17,057,908</u>	<u>15,378,606</u>
	<u>77,676,845</u>	<u>74,187,297</u>
Less amounts required for current obligations -		
Investments limited as to use	(18,096,112)	(16,886,268)
Other investments	<u>(12,614,456)</u>	<u>(11,900,596)</u>
	<u>(30,710,568)</u>	<u>(28,786,864)</u>
Investments, primarily investments limited as to use, net of current portion	\$ <u>46,966,277</u>	<u>45,400,433</u>

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

Investments are presented in the consolidated balance sheets at fair value, with the exception of real estate, certificates of deposit and cash surrender value of life insurance. Investments in real estate are presented at the lower of historical cost or fair value. Total investments, primarily investments limited as to use, presented at fair value at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Investments, primarily investments limited as to use	\$ 77,676,845	74,187,297
Less investments in real estate	(1,246,304)	(1,246,304)
Less investments in certificates of deposit	(272,214)	(271,236)
Less investments in cash surrender value of life insurance	<u>(1,027,939)</u>	<u>(970,309)</u>
	<u>\$ 75,130,388</u>	<u>71,699,448</u>

Investment income is composed as follows:

		<u>2017</u>			
		<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$	1,315,157	--	--	1,315,157
Net realized gains on other than trading securities		<u>284,208</u>	<u>36,582</u>	--	<u>320,790</u>
		1,599,365	36,582	--	1,635,947
Unrealized gains on investments, net		<u>3,145,700</u>	--	--	<u>3,145,700</u>
Total investment income	\$	<u>4,745,065</u>	<u>36,582</u>	--	<u>4,781,647</u>
		<u>2016</u>			
		<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$	1,489,736	--	--	1,489,736
Net realized gains (losses) on other than trading securities		<u>(407,101)</u>	--	11,481	<u>(395,620)</u>
		1,082,635	--	11,481	1,094,116
Unrealized losses on investments, net		<u>(93,474)</u>	--	(13,464)	<u>(106,938)</u>
Total investment income	\$	<u>989,161</u>	--	(1,983)	<u>987,178</u>

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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#### (6) Fair Value

##### Fair Value Measurements

Mosaic applies FASB ASC Topic 820 for fair value measurements of financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that Mosaic has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through either corroboration or observable market data.
- Level 3 inputs are unobservable inputs for the asset or liability. Therefore, unobservable inputs shall reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following methods and assumptions were used to estimate the fair value for each financial instrument measured at fair value:

Cash and Cash Equivalents – The fair value of cash and cash equivalents, consisting primarily of deposit accounts and accrued interest, is classified as Level 1 as these funds are valued using quoted market prices.

Fixed Income Securities – Investments in fixed income securities are comprised of a money market fund, U.S. government treasury obligations and U.S. government agency obligations. U.S. government treasury obligations are classified as Level 1 if they trade with sufficient frequency and volume to enable the organization to obtain pricing information on an ongoing basis. The remaining fixed income securities are classified as Level 2 based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Common Stock, Exchange Traded and Closed End Funds, and Mutual Funds – The fair value of common stock, exchange traded and closed end funds, and mutual funds is classified as Level 1 as the market value is based on quoted market prices, when available, or market prices provided by recognized broker dealers.

Beneficial Interest in Perpetual Trusts – The fair value of these interests are classified as Level 3 as Mosaic does not have the ability to redeem the investment. The fair value is based upon the value of the underlying investments as reported to Mosaic by the related holder.

Swap Agreement – The fair value of the interest rate swap agreement is classified as Level 2. Fair value is determined based on the present value of expected future cash flows using discount rates appropriate with the risks involved.

For the fiscal years ended June 30, 2017 and 2016, the application of valuation techniques applied to similar assets and liabilities has been consistent.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

#### Fair Value on a Recurring Basis

The following table presents the financial instruments that are measured at fair value on a recurring basis at June 30, 2017 and 2016:

	<b>June 30, 2017</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments, primarily investments limited as to use:				
Cash and cash equivalents	\$ 13,454,151	13,454,151	--	--
US government agency obligations	5,647	--	5,647	--
Exchange traded and closed end funds				
Equity	29,534,011	29,534,011	--	--
Fixed income	12,242,009	12,242,009	--	--
Mutual funds				
Equity	3,945,851	3,945,851	--	--
Fixed income	15,393,848	15,393,848	--	--
Beneficial interest in perpetual trusts	554,871	--	--	554,871
	<u>\$ 75,130,388</u>	<u>74,569,870</u>	<u>5,647</u>	<u>554,871</u>
	<b>June 30, 2016</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments, primarily investments limited as to use:				
Cash and cash equivalents	\$ 12,284,315	12,284,315	--	--
Money market	1,374,055	--	1,374,055	--
US treasury obligations	21,428	21,428	--	--
US government agency obligations	24,071	--	24,071	--
Common stock - domestic	143,340	143,340	--	--
Exchange traded and closed end funds				
Equity	25,780,743	25,780,743	--	--
Fixed income	12,609,397	12,609,397	--	--
Real estate	1,077,429	1,077,429	--	--
Mutual funds				
Equity	3,197,722	3,197,722	--	--
Fixed income	14,802,616	14,802,616	--	--
Beneficial interest in perpetual trusts	384,332	--	--	384,332
	<u>\$ 71,699,448</u>	<u>69,916,990</u>	<u>1,398,126</u>	<u>384,332</u>
Long-term debt, net of current portion, Swap agreements, net	<u>\$ 30,714</u>	<u>--</u>	<u>30,714</u>	<u>--</u>

A reconciliation of fair value measurements classified as Level 3 for the years ended June 30, 2017 and 2016 is as follows:

	<b>2017</b>	<b>2016</b>
Beginning balance	\$ 384,332	411,368
Investment income, net	11,810	11,514
Unrealized gains (losses) on investments, net	30,275	(14,380)
Additions	156,787	2,661
Sales	<u>(28,333)</u>	<u>(26,831)</u>
Ending balance	<u>\$ 554,871</u>	<u>384,332</u>

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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#### (7) Property and Equipment

Property and equipment as of June 30, 2017 and 2016, is summarized as follows:

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 10,892,763	10,873,239
Buildings and improvements	117,952,039	119,338,910
Equipment and furnishings	14,649,978	14,383,552
Transportation equipment	2,487,752	2,375,683
Construction in process	147,877	419,019
	<u>146,130,409</u>	<u>147,390,403</u>
Less accumulated depreciation	<u>(83,313,057)</u>	<u>(80,450,653)</u>
	<u>\$ 62,817,352</u>	<u>66,939,750</u>

Depreciation expense of \$5,872,086 and \$6,032,309 for June 30, 2017 and 2016, respectively, is included in the accompanying consolidated statements of operations and changes in net assets.

#### (8) Other Assets, Net

Other assets for Mosaic at June 30, 2017 and 2016 are comprised of the following:

	<u>2017</u>	<u>2016</u>
Goodwill	\$ 5,969,559	5,969,559
Contributions receivable from estates and remainder trusts	1,453,504	1,409,078
Pledges receivable, net of current portion	3,167,134	1,767,119
Gift annuities receivable	79,023	86,517
Capital contribution to Mosaic Residential Services of Nebraska (MRSNE)	915,017	915,017
Other	11,057	17,982
	<u>\$ 11,595,294</u>	<u>10,165,272</u>

The changes in the carrying amount of goodwill for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 5,969,559	5,980,582
Amortization expense	<u>--</u>	<u>(11,023)</u>
Ending balance	<u>\$ 5,969,559</u>	<u>5,969,559</u>

Mosaic Housing Corp V, Inc. is the general partner of Mosaic Residential Services of Nebraska, LLC (MRSNE). This corporation was formed to acquire, finance, build, own, maintain, improve, operate, lease and, if appropriate or desirable, sell or otherwise dispose of homes which provide housing for low income individuals with disabilities. Mosaic's capital contribution in MRSNE is recognized by Mosaic using the equity method of accounting. Mosaic does not consolidate the accounting of MRSNE due to its relative insignificance in relation to Mosaic's consolidated financial statements and operations.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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#### (9) Long-Term Debt, Including Lines of Credit

A summary of long-term debt at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Public Finance Authority Revenue Refunding Bonds, Series 2017A, due through May 2027, payable in varying semi-annual installments, interest rate of 2.90%, paid semiannually.	\$ 12,250,000	--
Public Finance Authority Revenue Refunding Bond, Series 2017B, due through May 2027, payable in varying monthly installments, interest rate at LIBOR, paid monthly beginning July 2018. Par value of bonds are \$6,740,000.	134,987	--
Nebraska Investment Finance Authority Revenue Bonds, Series 2010, paid in full during fiscal year 2017.	--	4,929,860
Hospital Authority No. 1 of Kearney County, Nebraska Revenue Bonds, Series 2010, paid in full during fiscal year 2017.	--	2,465,387
Hospital Authority No. 1 of Gage County, Nebraska Revenue Bonds, Series 2010, paid in full during fiscal year 2017.	--	1,271,559
Iowa Finance Authority Revenue Bonds, Series 2012, paid in full during fiscal year 2017.	--	2,480,781
Hospital Authority No. 1 of Kearney County, Nebraska Revenue Bonds, Series 2003, paid in full during fiscal year 2017.	--	406,864
City of Garden City, Kansas Economic Development Revenue Bonds, Series 2005, paid in full during fiscal year 2017.	--	227,855
Wells Fargo Bank note, paid in full during fiscal year 2017.	--	600,000
United States Department of Agriculture (USDA), payable in monthly installments, including interest at a rate of 4.75%, outstanding principal due November 2023. This mortgage payable is secured by all property, equipment and revenue of The Oaks of Dunn County, Inc.	957,712	1,084,288
U.S. Department of Housing and Urban Development, payable in monthly installments of \$3,438, including interest at a rate of 8.50%, outstanding principal due October 2032. This mortgage payable is secured by all property and equipment of Mosaic Housing Corp I.	352,943	363,700
Various mortgages, payable in monthly installments, including interest at rates ranging from 0% to 7.34%, maturing between 2017 and 2038. These mortgages are secured by real estate in Connecticut, Colorado, Nebraska, Illinois, Wisconsin and Texas.	4,104,827	4,219,314

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Various promissory notes to Charitable Remainder Annuity Trusts, secured by deeds of trusts on certain real property, monthly interest payments only through specified date or when trusts terminate, interest rates ranging from 6.44% to 8.66%.	884,054	884,054
Notes payable, Federal Home Loan Bank of Topeka, forgivable if certain requirements are maintained for a period of 15 years.	1,600,000	1,600,000
Line of credit - Morgan Stanley Smith Barney.	13,223,136	14,358,046
Line of credit - Wells Fargo Bank.	--	1,963,697
Swap agreements, net (see Note 10).	--	30,714
	<u>33,507,659</u>	<u>36,886,119</u>
Less current portion of long-term debt, including lines of credit	<u>(15,464,956)</u>	<u>(17,295,318)</u>
Long-term debt, excluding current portion	18,042,703	19,590,801
Less unamortized debt issuance costs	<u>(380,327)</u>	<u>--</u>
Total long-term debt, excluding current portion	\$ <u>17,662,376</u>	<u>19,590,801</u>

Public Finance Authority Revenue Refunding Bonds, Series 2017A, were issued to refund certain existing obligations. The issue is secured by all revenue of Mosaic and a security interest in certain collateral properties.

Public Finance Authority Revenue Refunding Bonds, Series 2017B, were issued in connection with the acquisition and improvement of group homes. The issue is secured by all revenue and a security interest in certain collateral properties. The bonds bear interest at the LIBOR Index Rate. Prior to August 1, 2017, the applicable rate is 2.92%. Amounts drawn on the bonds as of June 30, 2017 was \$134,987.

In order to secure the financing of Series 2017A and 2017B, as described above, Mosaic agreed to deeds of trust and assignment of rents and leases for certain properties. These properties are located in Omaha, Axtell and Beatrice, Nebraska and include farms located in Axtell, Nebraska and Storm Lake, Iowa. Related carrying amounts amounted to approximately \$11,400,000 in the consolidated balance sheets as of June 30, 2017.

In association with the refunding of existing revenue bonds, Mosaic recognized a loss on early extinguishment of debt of \$351,070 which is included with interest expense in the accompanying consolidated statements of operations and changes in net assets for the year ended June 30, 2017.

At June 30, 2017 and 2016, The Mosaic Foundation had available a line of credit of \$15,400,000, with Morgan Stanley Smith Barney. The line of credit at June 30, 2017 and 2016 had a balance of \$13,223,136 and \$14,358,046, respectively, with an interest rate of 2.44% on the first \$5,000,000 in principal and a varying interest rate of 2.22% and 1.47% at June 30, 2017 and 2016, respectively, on the remaining balance. The line of credit is secured by certain investments of The Mosaic Foundation.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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At June 30, 2017 and 2016, Mosaic also had available lines of credit of \$5,000,000 and \$7,000,000, respectively, with Wells Fargo Bank. The lines of credit at June 30, 2017 and 2016 had a balance of \$-0- and \$1,963,697, respectively, with a varying interest rate of 2% over the Daily One Month LIBOR, or 3.23% and 2.47%, respectively. The line of credit at June 30, 2017 is secured by the accounts receivable and other rights to payment and general intangibles of Mosaic and the line of credit at June 30, 2016 is secured by the revenue of Mosaic.

Deferred financing costs are amortized on a straight-line basis over the life of their respective long-term debt, which approximates the interest rate method.

Future maturities of long-term debt as of June 30, 2017 are as follows:

2018	\$	15,464,956
2019		1,831,882
2020		1,897,490
2021		1,770,760
2022		1,851,343
Thereafter		<u>10,691,228</u>
	\$	<u>33,507,659</u>

#### (10) Swap Agreements

Mosaic entered into an International Swaps and Derivatives' Association, Inc. (ISDA) Master Agreement, as supplemented and amended by the Schedule to the Master Agreement and the Confirmation (Swap Agreement) with Wells Fargo Bank, N.A. (Wells Fargo). This agreement was entered into during 2012 to establish an approximate fixed rate of interest with respect to the Series 2012 Bonds at the fixed rate of 1.85% payable by Mosaic to Wells Fargo on the swap (but subject to netting the variable index rate to be received by Mosaic from Wells Fargo on the swap and the variable rate of interest payable by Mosaic with respect to the Series 2012 Bonds) to May 1, 2027, in order to mitigate the risk of higher borrowing costs in a rising interest rate environment over the term of the Swap Agreement. During the year ended June 30, 2017, Mosaic refinanced the related debt and settled the swap agreement.

Until settlement of the swap agreement, Mosaic paid the agreed upon variable rate for the Series 2012 Bonds as required in the bond documents on a monthly basis and paid or received additional interest to or from Wells Fargo based on any difference between the variable index rate defined in the Swap Agreement received by Mosaic and the fixed rate of 1.85% paid by Mosaic under the Wells Fargo Swap Agreement. The total amount paid to Wells Fargo included in interest expense for the years ended June 30, 2017 and 2016 was \$85,977 and \$87,938, respectively.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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#### (11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets related to the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Support of general operations of Mosaic	\$ 7,544,282	5,751,982
Temporarily restricted endowments	748,156	748,156
Mosaic Housing Corp II capital advance and grant	1,067,400	1,067,400
Mosaic Housing Corp III capital advance	948,600	948,600
Mosaic Housing Corp IV capital advance and grant	479,300	479,300
Mosaic Housing Corp VII capital advance	865,300	865,300
Mosaic Housing Corp VIII capital advance	949,848	949,848
Mosaic Housing Corp IX capital advance	153,083	153,083
Mosaic Housing Corp X capital advance	166,591	166,591
Mosaic Housing Corp XI capital advance	205,391	205,391
Mosaic Housing Corp XII capital advance	991,400	991,400
Mosaic Housing Corp XIII capital advance	954,400	954,400
Mosaic Housing Corp XIV capital advance	1,076,300	1,076,300
Mosaic Housing Corp XV capital advance and grants	1,498,413	1,498,413
Mosaic Housing Corp XVI capital advance	1,444,917	1,444,917
Mosaic Housing Corp XVII capital advance and grants	1,449,200	1,449,200
Mosaic Housing Corp XVIII capital advance and grants	1,614,500	1,614,500
Mosaic Housing Corp XIX capital advance	1,211,900	1,211,900
Mosaic Housing Corp XX capital advance and grants	1,650,000	1,650,000
Mosaic Housing Corp XXII capital advance and grants	1,631,300	1,631,300
Mosaic Housing Corp XXIII capital advance and grants	244,500	244,500
City of Omaha HOME grants	523,768	523,768
Affordable Housing loans	80,000	80,000
Illinois Housing Development Authority loan	564,500	564,500
Affordable Housing Program loan	50,000	50,000
City of Fort Collins grant	27,975	33,570
Donor restricted for program purposes	259,590	259,589
	<u>\$ 28,400,614</u>	<u>26,613,908</u>

Capital advances, grants and loans relate to the construction and/or operation of housing projects for low income persons with disabilities and are not required to be repaid so long as the projects comply with appropriate regulations and operate for terms as specified within the advance, grant or loan.

Permanently restricted net assets listed below include endowment funds which are to be held in perpetuity, the income which is expendable for the following:

	<u>2017</u>	<u>2016</u>
Support of general operations of Mosaic	\$ <u>5,233,025</u>	<u>4,590,232</u>

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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#### (12) Endowment

The Nebraska Uniform Prudent Management of Institutional Funds Act (NUPMIFA) was enacted April 4, 2007. NUPMIFA sets out guidelines to be considered when managing and investing donor restricted endowment funds. Mosaic applies FASB ASC Topic 958 Subtopic 205 Subtopic 45, *Reporting of Endowment Funds*.

Mosaic endowments consist of funds established for a variety of purposes, including donor restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by Board of Directors to function as endowments and beneficial interests in trust assets, are classified and reported based on the existence or absence of donor-imposed restrictions.

Mosaic has interpreted NUPMIFA as requiring the preservation of the whole dollar value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Mosaic classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Absent any donor-imposed restrictions, interest, dividends and net appreciation of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Mosaic in a manner consistent with the standard of prudence prescribed by NUPMIFA.

In accordance with NUPMIFA, Mosaic considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of Mosaic and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of Mosaic
7. The investment policies of Mosaic

The net asset composition and changes in endowment net assets for the year ended June 30, 2017 and 2016 are as follows:

#### Endowment Net Asset Composition by Type of Fund

		June 30, 2017			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$	30,398,790	--	--	30,398,790
Donor-restricted endowment funds		--	748,156	5,233,025	5,981,181
	\$	<u>30,398,790</u>	<u>748,156</u>	<u>5,233,025</u>	<u>36,379,971</u>
		June 30, 2016			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	\$	30,645,576	--	--	30,645,576
Donor-restricted endowment funds		--	748,156	4,590,232	5,338,388
	\$	<u>30,645,576</u>	<u>748,156</u>	<u>4,590,232</u>	<u>35,983,964</u>

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

#### Changes in Endowment Net Assets

		Year Ended June 30, 2017			Total
		Unrestricted	Temporarily Restricted	Permanently Restricted	
Net assets, beginning of year	\$	30,645,576	748,156	4,590,232	35,983,964
Investment income, net		3,420,022	616,466	--	4,036,488
Contributions		681,509	--	642,793	1,324,302
Amounts appropriated for expenditure -					
Annual distribution		(1,314,534)	(616,466)	--	(1,931,000)
Additional transfers to Mosaic -					
Strategic investment		(3,040,443)	--	--	(3,040,443)
Other		(11,000)	--	--	(11,000)
Other changes,					
Transfer to increase board designated endowment funds		17,660	--	--	17,660
Endowment net assets, end of year	\$	<u>30,398,790</u>	<u>748,156</u>	<u>5,233,025</u>	<u>36,379,971</u>

		Year Ended June 30, 2016			Total
		Unrestricted	Temporarily Restricted	Permanently Restricted	
Net assets, beginning of year	\$	30,449,113	748,156	4,488,113	35,685,382
Investment income (loss), net		379,283	125,414	(1,983)	502,714
Contributions		992,713	--	104,102	1,096,815
Amounts appropriated for expenditure,					
Annual distribution		(1,713,873)	(125,414)	--	(1,839,287)
Other changes,					
Transfer to increase board designated endowment funds		538,340	--	--	538,340
Endowment net assets, end of year	\$	<u>30,645,576</u>	<u>748,156</u>	<u>4,590,232</u>	<u>35,983,964</u>

#### Return Objectives and Risk Parameters

The primary objective of Mosaic's endowment funds is to generate sufficient funds to support a long-term distribution policy of five percent (5%) of the total balance of endowments to Mosaic. Unrestricted matured deferred gifts including all bequests and other estate gifts will be added to the principal of the Board-designated endowment annually unless otherwise directed by the Board of Directors. Mosaic has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to agencies supported by its endowment, while seeking to maintain the purchasing power of endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to generate sufficient funds to support a long-term distribution policy of five percent (5%) or as otherwise designated by the donor or Board, while minimizing investment risk.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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#### Strategies Employed for Achieving Objectives

Mosaic relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest & dividends). The organization targets a diversified asset allocation strategy.

The endowment funds will be invested in publicly-traded common stocks and other equity-type securities, fixed income securities and money-market instruments. The total funds will invest in major asset categories as follows:

	<u>Actual Allocation</u>	<u>Target Allocation Range</u>
Equities	61%	45% to 75%
Fixed income	34%	25% to 55%
Cash equivalents	5%	0% to 15%
Alternatives	0%	0% to 10%

#### Appropriation Policy and How the Investment Objectives Relate to Appropriation Policy

The endowment funds are held in the Mosaic Foundation, which has a policy of distributing to Mosaic each year approximately 5% of all endowment funds. Periodically, additional or less appropriations are approved by the Board of Directors. The Foundation considers the long-term expected return on its funds in establishing this policy.

### (13) Professional Liability and Other Insurance

Mosaic's professional liability policy provides coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event Mosaic should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier. Mosaic could have exposure on possible incidents that have occurred for which claims will be made in the future, should professional liability insurance not be obtained, should coverage be limited and/or not available. Mosaic also carries an umbrella policy which provides additional coverage on an occurrence basis.

Accounting principles generally accepted in the United States of America require a provider to recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. Mosaic does evaluate all incidents and claims along with prior claim experienced to determine if a liability is to be recognized. These risks are evaluated and recorded in BICO.

BICO is a wholly-owned subsidiary of Mosaic and insures Mosaic for the deductible portion of U.S. workers' compensation and general and professional liability, auto liability, cyber and environmental liability along with other employer liability risks. The deductible reimbursement policy risks ranged from \$100,000 and \$500,000 at June 30, 2017 and 2016. BICO has established a collateral account of \$4,600,000 at June 30, 2017 and 2016, held in favor of Sentry Insurance as the third party administrator on the workers' compensation program as security for all outstanding claims, which is included with investments limited as to use in the consolidated balance sheets. At June 30, 2017 and 2016, BICO Ltd had included in liabilities outstanding and incurred but not reported (IBNR) loss reserves of \$9,592,320 and \$10,394,723, respectively.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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#### (14) Employee Benefit Plans

##### Deferred Compensation Plan

Mosaic offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 403(b). The plan permits all eligible Mosaic employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, disability, retirement, death or unforeseeable emergency. During the year ended June 30, 2016, Mosaic offered an additional one time match of up to 3% to eligible employees.

The employee is the beneficial owner of all assets the employee places in the plan.

Mosaic may elect to make matching contributions of which the amount is dependent upon employee funded levels and years of service. Vesting requirements are dependent on employee level and years of service.

Mosaic contributes to the New England Health Care Workers' Union pension plan which is a cost-sharing multiple-employer defined benefit pension plan administered by the New England Health Care Workers' Union. The plan provides retirement benefits which are established by union contract to plan members and beneficiaries. Mosaic is required to contribute 2% of annual covered payroll. Contribution requirements are established by union contract.

Mosaic also offers an additional deferred compensation plan for its executive officers. Eligible employees may defer up to the maximum amount allowed by Section 457(b) of the Internal Revenue Code into a separate investment account in which the executive has the right to direct the investment of the funds in accordance with investment guidelines established by Mosaic. Upon separation, as defined by the plan, the balance of the accounts will be paid to each of the executive officers.

For the year ended June 30, 2017 and 2016, total pension expense of \$711,681 and \$1,326,439, respectively, was incurred by Mosaic.

##### Executive Supplemental Benefit Plan

Mosaic adopted an executive supplemental benefit plan (Plan) in 2004 to provide supplemental retirement benefits for a certain number of its employees. When a participant reaches a total of age plus years of service equal to seventy-five or more, the participant becomes eligible for post retirement payments (salary continuation) and health care benefits. As of June 30, 2017, only a limited number of employees were eligible to participate in the Plan and only one employee had reached the threshold to be vested in the Plan.

Mosaic applies the recognition and disclosure provisions of FASB ASC Topic 715, *Compensation – Retirement Benefits* (ASC Topic 715). ASC Topic 715 requires companies to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in which the changes occur through other changes in net assets, to the extent those changes are not included in the net periodic cost. The funded status reported on the consolidated balance sheets as of June 30, 2017 and 2016 under ASC Topic 715 was measured as the difference between the fair value of plan assets and the benefit obligation.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

The following summarizes the recognition of the executive supplemental benefit plan in the financial statements at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Consolidated balance sheets:		
Liability for post-retirement benefits -		
Salary continuation	\$ 700,213	617,383
Health benefits	506,213	517,426
	<u>\$ 1,206,426</u>	<u>1,134,809</u>
Consolidated statements of operations and changes in net assets:		
Included with employee benefits -		
Salary continuation	\$ 64,838	67,839
Health benefits	19,331	33,201
	<u>\$ 84,169</u>	<u>101,040</u>
Postretirement benefit related changes other than net periodic cost -		
Salary continuation	\$ (17,992)	17,803
Health benefits	1,589	39,693
	<u>\$ (16,403)</u>	<u>57,496</u>

#### Projected Benefit Obligation – Salary Continuation

The following table summarizes the projected benefit obligation, the fair value of plan assets, and the funded status at the measurement dates of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Changes to benefit obligation:		
Benefit obligation at beginning of period	\$ 617,383	567,347
Service cost	20,365	19,991
Interest cost	21,337	18,666
Experience gain	41,128	11,379
	<u>700,213</u>	<u>617,383</u>
Benefit obligation at end of period		
Fair value of plan assets at end of period	<u>--</u>	<u>--</u>
Funded status at end of period	<u>\$ (700,213)</u>	<u>(617,383)</u>
Amounts recognized in the consolidated balance sheets:		
Current liabilities	\$ --	--
Noncurrent liabilities	700,213	617,383
	<u>\$ 700,213</u>	<u>617,383</u>

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

The following is a summary of the components of net periodic postretirement benefit cost for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Service cost during the period	\$ 20,365	19,991
Interest cost on projected benefit obligation	21,337	18,666
Amortization	<u>23,136</u>	<u>29,182</u>
Net periodic pension cost	<u>\$ 64,838</u>	<u>67,839</u>

Items not yet recognized as a component of periodic pension cost at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Net loss	\$ <u>202,752</u>	<u>180,430</u>

#### Accumulated Postretirement Benefit Obligation – Health Benefits

The following table summarizes the accumulated post retirement benefit obligation, the fair value of plan assets, and the funded status at the measurement dates of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Changes to benefit obligation:		
Benefit obligation at beginning of period	\$ 517,426	523,918
Service cost	6,137	17,955
Interest cost	13,194	15,246
Benefits paid	(28,955)	--
Experience gain	<u>(1,589)</u>	<u>(39,693)</u>
Benefit obligation at end of period	<u>506,213</u>	<u>517,426</u>
Fair value of plan assets at end of period	<u>--</u>	<u>--</u>
Funded status at end of period	<u>\$ (506,213)</u>	<u>(517,426)</u>
Amounts recognized in the consolidated balance sheets:		
Current liabilities	\$ 44,945	28,955
Noncurrent liabilities	<u>461,268</u>	<u>488,471</u>
	<u>\$ 506,213</u>	<u>517,426</u>

The following is a summary of the components of net periodic postretirement benefit cost for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Service cost during the period	\$ 6,137	17,955
Interest cost on accumulated postretirement benefit obligation	<u>13,194</u>	<u>15,246</u>
Net periodic pension cost	<u>\$ 19,331</u>	<u>33,201</u>

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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Items not yet recognized as a component of periodic postretirement cost at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Net gain	\$ <u>(3,537)</u>	<u>(1,948)</u>

#### Actuarial Assumptions

The following are the actuarial assumptions used by the Plans to develop the components of the pension projected benefit obligation and accumulated postretirement benefit obligation for the year ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Discount rate – Pension	2.81%	3.32%
Discount rate – Health	2.70	2.55
Rate of increase in compensation levels	2.00	2.00

#### **(15) Health Care Plan**

Mosaic provides comprehensive medical and vision care benefits and an employee assistance program for eligible employees and their dependents through participation in a multi-employer Voluntary Employee's Beneficiary Association (VEBA). In addition, educational compensation benefits are provided for participating employees through the VEBA. Mosaic contributes 100% of the core medical plan cost (single person coverage) based on actuarially determined rates. For the years ended June 30, 2017 and 2016, total health insurance expense of \$15,643,633 and \$17,859,145 was incurred by Mosaic.

To the extent the VEBA has plan liabilities in excess of plan assets or plan assets in excess of plan liabilities, future employer contributions may be changed to continue to provide benefits to eligible employees and their dependents of Mosaic.

#### **(16) Concentrations of Credit Risk**

The majority (more than 90%) of Mosaic's program service activity is with individuals who are beneficiaries of the various states' Medicaid programs. The Medicaid programs' ability to honor their contracts is dependent on State and Federal funding of the programs.

Amounts held in financial institutions occasionally are in excess of the Federal Deposit Insurance Corporation and Securities Investor Protection Corporation limits. Mosaic deposits its cash with high quality financial institutions, and management believes Mosaic is not exposed to significant credit risk on those amounts.

Mosaic has investments in marketable equity securities, corporate bonds and various other types of investments. The values of these investments are determined by market value and are not insured or collateralized.

The investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in values of investment will occur in the near term and that such changes could materially affect net assets of Mosaic.

## Mosaic and Affiliates

### Notes to Consolidated Financial Statements June 30, 2017 and 2016

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#### (17) Commitments and Contingencies

##### Operating Leases

Mosaic conducts a portion of its operations in facilities that are leased on a month-to-month basis and, therefore, are not included in the minimum rental commitments shown below. Mosaic generally leases vehicles for 12-month terms, with the option for month-to-month renewals following the initial term.

The minimum rental commitments under operating leases, which includes facilities, vehicles and equipment, are as follows for years ended June 30:

2018	\$ 2,629,449
2019	1,611,996
2020	953,477
2021	414,256
2022	81,824

##### Litigation

The health and human services industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health and human services program participation requirements, reimbursements for client services, and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for client services previously billed.

Management believes that Mosaic is in compliance with applicable government laws and regulations as they see apply to the areas of fraud and abuse. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Mosaic is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on Mosaic's future financial position or results from operations.

#### (18) Functional Expenses

Mosaic provides care, rehabilitative and vocational services to individuals with disabilities within its geographic location. Expenses related to providing these services are as follows:

	<u>2017</u>	<u>2016</u>
Program services	\$ 206,539,879	211,800,505
General and administrative	26,513,502	25,672,491
Fundraising	2,846,586	2,548,286
Investment management fees	170,742	167,995
	<u>\$ 236,070,709</u>	<u>240,189,277</u>

**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance With *Government Auditing Standards***

To the Board of Directors  
Mosaic and Affiliates  
Omaha, Nebraska:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mosaic and Affiliates (Mosaic), which comprise the consolidated balance sheet as of June 30, 2017, the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 6, 2017. The financial statements of The Mosaic Foundation, The Oaks of Dun County, Inc., Ease-E Medical, Inc., and BICO, Ltd were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Mosaic's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mosaic's internal control. Accordingly, we do not express an opinion on the effectiveness of Mosaic's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that has not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mosaic's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Stim Johnson, LLP*

Omaha, Nebraska,  
October 6, 2017.